DOCKET SECTION

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BEFORE THE

POSTAL RATE COMMISSION

DOCKET NO. R97-1

Postal Rate and Fee Changes, 1997

TESTIMONY

OF

JOSEPH E. BALL

In Behalf of

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

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DIRECT TESTIMONY OF JOSEPH E. BALL

I. IDENTIFICATION OF WITNESS

My name is Joseph E. Ball and I am the Executive President of Florida Gift Fruit Shippers Association, North Kirkman Road, Orlando, Florida 32808-7645.

I received my Bachelor's Degree in zoology (pre-med) University of Arkansas in 1964 and a MBA in Personnel ministration from George Washington University in 1969.

I am a retired Captain, United States Naval Reserve.

From 1970 to 1982 I was employed with the Housing Division, University of Florida, Gainesville, Florida, and served as its Business Manager from 1976.

I have worked with the Florida Gift Fruit Shippers Association since 1982, serving as Associate Vice President until 1988, at which time I was elected as Executive Vice President of the Association I have served in that capacity to the present time.

I am a member of the Board of Directors of Parcel Shippers Association. I served as Chairman of the Parcel Sub Group of the Competitive Services Task Force and presently serve as a member of the fourth class sub-committee of the Mailers Technical Advisory Committee, both of which were organized by the Postal Service. I previously appeared before the Postal Rate Commission as a witness in Dockets R90-1 and MC93-1.

My duties and responsibilities have involved all aspects of transportation matters pertaining to gift fruit shipments and my work has included development of charges and rates for pickup, handling, line haul and delivery at destination. I participated with officials of the Postal Service, Canada Post and United Parcel Service in the

development of rates and charges for use in connection with the truck program administered by the Association (the truck program is described hereinafter) My duties include the general supervision and direction of the entire truck program of the Association.

The truck program presently administered by the Association was initiated in 1968 under the direction and supervision of William A. Stubbs, who was Executive Vice President of the Association from 1951-1988 and who now serves as Transportation Consultant to the Association.

II. IDENTIFICATION OF INTERVENORS

Florida Gift Fruit Shippers Association is a cooperative, the members of which are shippers of fresh citrus from Florida in gift packages. There are approximately 142 shipper members. The Association represents the industry in all matters dealing with transportation in the conduct of the gift fruit business. The Association also maintains and operates a transportation program to handle products for members of the Association. This transportation program is hereinafter referred to as the "truck program."

III. DESCRIPTION OF INDUSTRY

The gift fruit industry is a part of the Florida citrus industry and approximately 3,000,000 gift fruit packages are shipped from Florida during each fruit season, which runs from November to May. Gift fruit shipments essentially provide for delivery of quality fruit direct from the grove to the consumer. Sales result from mail orders,

tourists and vacationers in Florida, regular shipments by gift or purchase, Christmas gifts by businesses and individuals, and other similar occasions. Marketing methods and practices are varied, with no uniformity among all shippers. Marketing will differ according to the sales method, location of point of sale, type of customer, and many other factors.

Shipments of gift fruit are made in many different types of packages. These depend on the type of fruit -- variety, straight or mixed, or size -- type of package -- carton, basket, wrapped or tray -- and type of content -- plain fruit, fancy or deluxe combination. For shipment, however, all packages are standardized in rectangular cartons of corrugated or fiberboard.

Generally, the shipment of fresh fruit may be separated into eight size categories: 7 lbs., 10 lbs., 13 lbs., 15-18 lbs., 20 lbs., 26 lbs., 35 lbs., and 44 lbs.

The average weight per package of shipments of Florida gift fruit is approximately 25 lbs. About 56% of the packages are over 20 lbs., with the 26 lb. package accounting for approximately 26% of the total.

IV. TRANSPORTATION OF GIFT FRUIT PACKAGES

Florida gift fruit packages are shipped from Florida to destinations throughout the United States and Canada with some shipments to European destinations. Pricing by each shipper is varied with no uniformity. Generally, there is a single price for a particular size package, which price includes delivery to any destination east of the Mississippi. There may be additional charges for destinations west of the river, on the Pacific Coast, Europe, and Canada, but, as stated, the base transportation cost usually is not separately stated in the pricing.

For many years, gift fruit packages were shipped from Florida direct to the consumer via Railway Express and the successor R.E.A. Agency. The service provided by rail deteriorated with the result that delivery time worsened and damage claims increased, with a higher degree of customer dissatisfaction. The deterioration in service was coupled with continuing increase in rates. These factors contributed substantially to the necessity for the development of a substitute method of transportation. From this, the Association sponsored and developed what has become a very efficient truck program.

The truck program carried on by the Association for the benefit of its members may be divided into essentially four components; the pickup, classification and sorting, the line haul, and destination delivery.

The Association provides pickup service as a part of the truck program for ninety-eight of the members of the Association. Pickup service is provided throughout the citrus-growing areas of Florida, which essentially include all of Central and South Florida. Pickup service is provided by over-the-road tractor-trailer units or trucks,

which are routed to each member as required. The shipper marks each package with a route number designated by the Association. After pickup, all packages are delivered to the terminal facility maintained by the Association in Orlando.

At the Orlando terminal facility, all packages are unloaded on a conveyer and sorted by route number in approximately twenty-two bays in the building. Packages for a particular route number may be accumulated within a bay until a sufficient number of packages are received or they may be direct loaded onto a trailer for the line haul portion of the movement.

As each parcel is sorted into a bay, it is placed on a scale to determine weight. While on the scale, the operator keys in the zip code from the parcel address and electronically scans the bar code on the parcel reflecting the member number. The computer calculates the appropriate rate for the parcel based on the zip code and weight. This would include rating for intra-BMC, inter-BMC or DBMC. This process includes an automatic classification between non-machinable and machinable parcels. The computer then generates a label to be affixed to the parcel, which would include a bar code for the parcel identification number and identification as to whether the parcel is a DBMC rate or a schedule 400 rate. A second label is affixed to each parcel destined for delivery in Arizona, California or Texas to show that the parcel was processed in accordance with agricultural requirements concerning fumigation.

From the scale, each parcel is either loaded directly into an out-bound trailer or placed on the floor in a bay for later loading into the trailer. For the parcels loaded on each trailer, a postal Form 8125 is prepared, along with a bill of lading.

Since the 1992-1993 season, the Association has participated with the Postal

Service in a program for the determination of postage, which is referred to as the plant verified drop ship program. The Postal Service sends a team of inspectors to the Association's office to inspect, review and approve the system utilized by the Association in the determination of postage for the parcels handled through the terminal. This inspection includes the computer hardware and software programs, the rate schedule, and the quality control program designed to assure a correct determination of postage. This entire system was reviewed and approved prior to the beginning of the season and has been spot-checked by postal inspectors periodically to verify the operation and the sufficiency of the quality control verification.

In lieu of a printed manifest, the Association provides to the Orlando SCF a computer-generated floppy disk which reflects a manifest for each truck which has been loaded that day. The disk includes: the manifest number, the date and the truck number, and for each parcel, the parcel identification number, zip code, weight and postage. The total amount of postage is paid by check which accompanies the floppy disk.

Line haul transportation from the Orlando terminal to the point of destination delivery is provided by over-the-road tractor-trailer units. Transportation from Orlando to final destination city is a flat rate per trailer regardless of weight. Trailer loading usually approximates 41,200 lbs. with an average of 1,603 packages per trailer. For the 1993-94 season, typical flat rates per trailer to destinations in various post office zones are: Zone 5-$1,01O.00 to $1,615.00; Zone E-$1,510.00 to $2,385.00. In addition, there is a stopoff charge of $30.00 for stops for partial unloading enroute. Partial unloadings may be as many as six on a trip, but the average is less than three. As a

general rule, the minimum number of packages to establish a stopoff for partial unloading is seventy-five.

Some of the larger shippers (members of the Association) have sufficient volume to certain destinations, mainly during December, to enable them to ship direct to destination delivery facilities. The procedure used by the individual shipper is similar to that described for the Association. Direct shipment is desirable since it reduces the costs of delivery, time in transit and the number of handlings.

Destination delivery in the U.S.A. is accomplished by USPS using fourth class parcel post. For destinations outside of continental U.S.A., delivery is by priority mail, except in Canada, where destination delivery is by Canada Post. European delivery is made by various carriers.

Factors taken into consideration of the selection of destination delivery points are to use the local zone rate, if possible, to avoid higher zone rates, to avoid the additional handling involved in an inter-BMC movement and to expedite delivery time, and to meet the operational requests of the Postal Service. Parcel post local zone is the preferred objective in selecting destination distribution points, primarily as a result of the level of rates and charges compared to alternative modes of delivery.

If Zone 1 and 2 rates apply, selection of the delivery carrier is determined by several factors, including - service, unloading and rates.

During the season 1996-97, the total packages handled by the Association terminal exceeded 1.2 million, including Canada.

Currently, the Association tenders parcels to a total of thirty-two postal facilities, including all 21 BMC's. Selection of each postal facility for entry points to handle each

zip destination is made by the Office of Transportation Services of USPS after meetings with the Association. The Association cooperates with USPS by making drop shipments at entry points designated by USPS, even though the cost to the Association may be increased as a result. Parcels delivered to an SCF are for distribution to AC's serviced by the SCF or to other SCF's having a direct link. These parcels generally are not processed through a BMC_1 and avoid BMC handling cost and transportation cost from the BMC to the SCF. The BMC's, rather than SCF's, are used at the request of the Postal Service, because of diverse three digit zips served over a wide area. Parcels tendered to the BMC rather than the SCE avoid handling at the SCE and transportation to the BMC.

The rather complex system for delivery of parcels to the Postal Service at SCF's has been undertaken to expedite handling and delivery and to qualify for the lowest available rate.

Analysis of the gift fruit parcels for the 1996-97 season reveals volume by weight category as follows:

Size Package (lbs)	No. Pkgs. Shipped 96-97 Season	Percentage
	(1)	
Under 7	141,548	11.03
8 - 10	69,612	5.42
11 - 15	299,146	23.31
16 - 18	47,490	3.70
19 - 21	75,892	5.91
22 - 29	333,106	25.96
30 - 37	88,743	6.91
38 and over	227,860	17.75
Totals:	1,283,397	100.00

(1) Excludes Canada

Each delivery of parcels to a postal facility will include a mix of packages representing various weight categories. When given to the Postal Service at an SCF, all parcels are handled in the same manner with no distinguishment as to machinability. Actually, machinability is not a factor for most parcels, since at most SCF's sorting and handling is manual rather than mechanical.

V. INTRA-BMC TRANSPORTATION COSTS

There is an obvious error in the distribution of intra-BMC highway service purchased transportation costs.

Intra-BMC highway service costs are distributed on basis of intra-BMC cubic feet miles. The final distribution key developed by TRACS for FY 1996 is stated separately for each quarter. The average for the year for Standard A mail is 26.652%, for Intra-BMC Parcel Post is 21.618% and for DBMC is 7.597%. The total cubic feet of Intra-BMC and DBMC mail is 22,497,000 and 70,469,000, respectively. (LR-H-135) The total cubic feet for Standard A for the year is 395,737,000 (LR-H-111). There is a major inconsistency when the TRACS distribution key for Standard A is less than the total distribution key for parcel post Intra-BMC and DBMC. It simply cannot be correct. The total cubic feet of Standard A using intra-BMC transportation is more than 4.25 times the total cubic feet of intra-BMC parcel post and DBMC. The final distribution key should reflect the same relationship.

Similar inconsistencies appear to exist in the development of the distribution

keys for the other subclasses of fourth class mail, but the mail flow to establish the true quantity of such sub-classes use of intra-BMC transportation cannot be determined from the data available to me.

Since highway transportation costs are distributed on basis of cubic feet, the cubic feet for each class of mail should be representative of the costs distribution.

Sampling under TRACS for intra-BMC is apportioned to 5 facility type strata:

BMC - destination	60%
SOF - into BMC	6%
Other - into BMC	2%
SCF - out from BMC	25%
other - out from BMC	5%

This sampling is heavily biased so that third class mail will not be reflected in a representative manner. It is my understanding that most third class mail is either deposited at a BMC or plant loaded. Very little third class mail originates at a SCF for handling through a BMC. Thus, 70% of the TRACS sampling will not record any significant part of the third class volume.

There are other serious deficiencies in the sampling procedures of TRACS since the samples reflect that the DBMC volume is less than the intr-BMC parcel post volume. Such is contrary to the volumes measured for each.

The evidenced non-representativeness of the TRACS sampling data results in disproportionate distribution of intra-BMC highway transportation cost to parcel post.

The TRACS system calculates the cubic feet of included mail based on a uniform factor based on the relationship between cube and weight for each class and subclass. Application of the uniform factor for parcel post fails to account for the degressive ratio of cube to weight, which is used in the distribution of transportation

cost within parcel post, but which is not used in the attribution of transportation cost to parcel post. Failure to utilize this degressive ratio results in an over attribution of costs to parcel post.

VI. COST OF EXCESS CAPACITY

It has been well established that attribution of costs for postal rate-making is to be founded on a causal relationship with a class or subclass of mail.

For surface transportation costs USPS has and uses capacity in excess of that needed for moving the mail.

The low utilization of the contracted for highway transportation for intra-BMC and inter-BMC transportation demonstrates this excess capacity.

The costs of excess capacity are increasing. These costs have no causal relationship to the mail being handled, but rather is the result of the management decision to select and contract for excess capacity vehicles. This excess capacity is not a one-time or isolated situation, but appears to be of a continuing nature.

The costs of highway transportation for intra-BMC and inter-BMC are attributed by the Postal Service to the extent of more than 90%.

It appears that the management decision to maintain contracts for purchased transportation to provide capacity far in excess of the need to transport mail results in costs which are not caused by any class or subclass of mail and, therefore, should not be classified as attributable costs, but rather should be a part of institutional costs.

VII WEIGHT RELATED NONTRANSPORTATION HANDLING COSTS

The proposed rate structure for parcel post includes a two cents per pound factor to cover weight related nontransportation handling costs.

However, there are no studies to identify or quantify to effect of weight on handling costs, and no one has been able to identify any such costs. In the absence of any study or knowledge, there can be no justification of the use of this factor in the rate structure. All nontransportation handling costs should be recovered by the per piece element of the rate.

This per pound element of the rate structure results in rates for a 30# parcel to include 60 cents for unidentified, unquantified costs, whereas a 10# parcel would include only 20 cents for such costs. There is not shown, or known, to be any justification for this difference, based solely on the weight of the parcel.

There may be some costs, such as floor space and number of parcels in a container or sack, which differ according to the size, or cube, of the parcels. Such costs are determined by the size, or cube, of the parcel, rather than the weight of the parcel. The relationship between weight and cube has been established for transportation costs, and that same curvilinear relationship should be applied to apportion the weight related nontransportation costs. Failure to use this relationship will result in discriminatory treatment of the heavier parcels, charging those parcels with a greater portion of the costs than can be justified.

VIII. ASSIGNMENT OF INSTITUTIONAL COSTS

For postal ratemaking purposes, institutional costs are those for which there is no established causal relationship with any particular class or subclass of mail and

which are not variable with volume. These are in the nature of overhead expenses which are incurred to maintain and operate the system.

Every piece of mail benefits from the system and the postage rate for every piece of mail should include some amount in excess of its attributable cost as payment for the benefit of participating in the system.

All mail does not equally benefit from the system, since some mail receives varying degrees of preferred or expedited service, and other mail is subject to a deferred or slower level of service. Fourth class parcel post is in the latter category.

Value of service, both to the mailer and the addressee, should be taken into account, necessarily on a judgmental basis, in determining the amount to be paid by each piece of mail toward the total of institutional costs.

The amount to be added to attributable cost to establish the rate may be referred to as the "mark-up" for institutional costs. The total mark-up for all mail must be sufficient, in total amount, to cover all such costs.

An appropriate starting point for the determination of the mark-up is a uniform amount for each piece of mail. From there, appropriate adjustments should be made to reflect the relative benefits from participating in the system, the value of service, and the ratemaking criteria of the Postal Reorganization Act.

Since parcel post, and other fourth class mail, is subject to deferral in delivery and also is handled by surface transportation, which is slower than air transportation, each piece of such mail should have a mark-up of less than a piece of first class mail.

Weight should not be a factor in determining the mark-up or the amount to be paid toward institutional costs. A 30 lb. parcel receives no greater benefit from the

system than does a 5 lb. parcel, and there should be no difference in the amount of the mark-up.

In the past, assignment of institutional costs has been made by the application of a mark-up percentage to attributable costs. Differences in the cost of handling and processing each piece of mail are reflected in the amount of attributable cost for that piece. Those differences should not be compounded by the application of a mark-up percentage for institutional cost. There is no relevant relationship between attributable costs and institutional costs.

Continued application of this methodology means that, if the Postal Service becomes more efficient in handling and processing a particular type of mail, with the resultant lower costs, then, due to the improved service, that type of mail will make a lower contribution to institutional costs.

Such a consequence is inconsistent with reasonable assignment of the institutional costs, which brought about the improved efficiencies and cost reductions.

For all mail, the amount of attributable transportation cost increases with distance. However, only for zone-related mail is the difference separately attributed based on zone destination. I find no justification for a piece of mail destined to Zone 8 having a larger mark-up amount than a piece of mail destined to Zone 4. The only difference between the two is the transportation cost. Transportation costs are not a part of the system of operating the Postal Service, but rather are services purchased from independent providers outside of the Postal Service. Attributable costs resulting from purchased transportation should not be included in the base against which the mark-up is applied.

Preservation of parcel post as an integral part of the postal system is vital to all parcel mailers.

The steady decline of parcel post volume was curtailed by the creation of the DBMC rate in Docket No. R90-1. That has enabled the Postal Service to regain some of the volume of parcels from business mailers, who had previously diverted parcel volume to competitive delivery services. The recovery of volume, enabled by the DBMC rate, has been gradual, but is essential to assist in restoring volume which is necessary for efficient operation of the bulk mail system.

The factors which have justified low cost coverage for parcel post in prior rate cases continue to apply. We urge the Commission to moderate the cost coverage for parcel post in this case so that the recovery of volume, principally through utilization of the DBMC rate, can have the opportunity for success.

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing has been mailed this date to all parties of record in accordance with the Rules of Practice.

Dated this 30th day of December, 1997.

M. W. Wells, Jr, Attorney